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Defense Department Subsidy to Saigon Is Charged

By JOHN W. FINNEY

Special to The New York Times

WASHINGTON, June 28—A staff report of the Senate Foreign Relations Committee asserted today that the Defense Department pumped an additional total of \$155-million into the South Vietnamese economy last year by devising a system of separate exchange rates for private and official transactions.

While United States servicemen in South Vietnam were getting 275 to 410 piasters to the dollar, the Defense Department, according to the report, was using an exchange rate of 118 piasters to the dollar in its official transactions.

The report suggested that the department had done so as a way of setting Congressional reductions last year in economic aid to South Vietnam. The result, the report said, was a subsidy to the Saigon Government.

A spokesman said the Defense Department had no comment on the report.

Operation Is Described

The department's monetary operation, according to the report, worked in the following fashion:

South Vietnam devalued the piaster in October, 1970, from 118 to the dollar to 275, and again in November, 1971, to 410. These rates applied to the private transactions, such as those of United States servicemen, exchanging dollars for local currency.

The Defense Department, meanwhile, continued to maintain an exchange rate of 118 piasters to the dollar. It was not until last April that the exchange rate for these government-to-government transactions was finally raised. It is now 425 piasters to the dollar.

Congress Not Informed

As a result, the report said, Defense Department purchases of piasters provided \$271-million in dollars for the South Vietnamese Government in 1971. But if the Defense Department exchange rate had been increased in keeping with the other rates, the report added, the department, in its purchase of piasters, could have bought the same quantity of goods and services for \$116-million.

The department, according to the report, did not officially inform Congress that it was maintaining the low exchange rate as a way of pumping dollars into the South Vietnamese economy. It was not until the Senate Foreign Relations Committee sent two staff members, James G. Lowenstein and Richard M. Moose, to South Vietnam a month ago that the department's monetary operations were disclosed to Congress.

The report said that official

in the United States mission in Saigon had acknowledged that maintaining the rate at 118 piasters to the dollar, had "had the effect of a subsidy" to the Saigon Government.

The Defense Department was not alone in this practice, according to Robert H. Nooter, the Assistant Administrator for Vietnam in the Agency for International Development.

"This was the official exchange rate for all government-to-government transactions for all agencies, not just defense," Mr. Nooter said.

Mr. Nooter also contended that Congress had been informed of the exchange rates on several occasions over the last year and a half. "I discussed it myself with the Sen-

ate Appropriations Committee and the House Subcommittee on Government Operations," he said.

The official explanation for not raising the exchange rate until last April, the report said, was the Congressional delay in passing the foreign aid legislation for the current fiscal year. But the report suggested the increase in exchange rates had been delayed as a "further means of offsetting" Congressional cuts in economic aid to South Vietnam.

Now that the official exchange rate has been raised, the report said, the Defense Department is proposing two new economic aid programs to offset the expected reduction in

South Vietnam's dollar earnings.

One is a \$50-million economic support fund, which South Vietnam can use for unrestricted foreign purchase of goods and services.

Lending Fund Acted

The other is a \$75-million economic development fund, which South Vietnam can use to support lending to private investors and for public development projects.

The two committee staff consultants were sent to South Vietnam to assess the military and political repercussions of the North Vietnamese offensive that began on March 30.

Senate Study Finds Saigon Regime Might Not Survive a Cease-Fire

By Stanley Karnow
 Washington Post Staff Writer

Two Senate foreign affairs specialists recently returned from Vietnam reported yesterday that the present Saigon government might not survive a decision by Hanoi to accept President Nixon's latest peace offer.

James G. Lowenstein and Richard M. Moose, members of the Senate Foreign Relations Committee staff, said in a study that several South Vietnamese expressed the view that Hanoi's acceptance of Mr. Nixon's cease-fire proposal would disrupt the Saigon regime and pave the way for a Communist takeover.

Mr. Nixon proposed on May 8 to withdraw all U.S. forces from Vietnam within four months if the Communists released American war prisoners and agreed to an "internationally supervised cease-fire" throughout Indochina.

The Senate specialists also reported the overwhelming consensus of both Americans and South Vietnamese that the Saigon government would have collapsed during the recent Communist offensive had it not been supported by U.S. military aid and assistance.

In a press briefing yesterday, Lowenstein stressed that the "tremendous reliance" of South Vietnam on American support "raises doubts about whether the United States can withdraw." He said: "The South Vietnamese have very little confidence in their own ability to face the future."

The two committee staff members reported that Vietnamese they had interviewed regarded the possibility of a cease-fire with "mixed emotions."

On the one hand, their study stated, the Vietnamese voiced "relief that an end of the war might be in sight." But at the same time, the

study said, they seemed apprehensive that "the subsequent political turmoil would find the non-Communist forces so leaderless and divided" that an estimated 10 or 15 per cent Vietcong vote "might constitute the decisive influence."

Lowenstein and Moose reported that many Vietnamese feel that South Vietnamese President Nguyen Van Thieu's "inflexible political position" is preventing non-Communist elements in Saigon from strengthening themselves to confront a possible Vietcong political challenge.

At their press briefing, the Senate aides pointed to Thieu's acquisition on Tuesday of special emergency powers as evidence that he has no intention of diluting his authority. The bill enfranchising Thieu to rule by decree for six months was passed in a rump session by 26 of South Vietnam's 57 senators.

During their visit to Vietnam from May 23 to June 5, Lowenstein and Moose reported in their study, U.S. Embassy personnel were engaged in lobbying in favor of Thieu's bid for special powers. The study said:

"American officials argued that the granting of emergency powers would demonstrate the willingness of the Vietnamese 'to put aside politics' in the interest of unity...."

The Senate specialists reported that American equipment and advisers played a critical role in halting the Communist offensive that began in April.

The study said, for example, that the U.S. Air Force airlifted a total 36,717 tons of cargo and 128,586 military personnel between March 31 and May 25, while the South Vietnamese Air Force airlifted 6,302 tons of cargo and 77,191 passengers during the same period.

According to U.S. military

estimates, the study said, the South Vietnamese would have needed a fleet of 229 C-123 cargo aircraft to supply and move their troops. The South Vietnamese Air Force has 48 such aircraft.

The study further emphasized that American tactical air support was "the most crucial U.S. contribution" during the Communist offensive. Between March 31 and May 24, the study showed, U.S. aircraft were flying an average of 169 sorties per day in North Vietnam and 605 sorties daily in South Vietnam.

While there were no ground assaults and only few rocket or mortar attacks against U.S. units during the Communist offensive, the study said, American advisers "played a critical role" helping South Vietnamese troops.

In some cases they "assumed virtual command" and they were "indispensable in coordinating air support", the study said adding: "No one with whom we talked, American or Vietnamese, thought that the South Vietnamese could have held had there not been American advisers."

Lowenstein and Moose also found that U.S. economic aid is indispensable to South Vietnam, since it offsets the entire 67 per cent of the Saigon budget devoted to defense expenditures and provides a significant portion of the rest of the Vietnamese budget. The Senate specialists estimated that gross U.S. economic assistance in Fiscal 1973 would reach \$753 million.

The study reported that after reductions made by Congress in the 1972 aid program, several steps were taken "to maintain Vietnamese dollar earnings at a high level." One of these steps was a decision to maintain the exchange rate for official piaster purchases at 118 to the dollar, which amounted to a subsidy.